

Message Text

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ACTION EB-08

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SUBJ: AUSTRALIA-US AIR NEGOTIATIONS

1. TEXT FOLLOWS OF AUG. 30 ARTICLE IN FINANCIAL REVIEW.
IF ARTICLE IS INCORRECT WITH RESPECT TO CONTINENTAL PLANS,
WOULD APPRECIATE WASHINGTON ADVICE.
2. QUOTE: CONTINENTAL AIRLINES HAS ANNOUNCED PLANS TO START
SERIVCES TO THE SOUTH PACIFIC ON MAY 1, 1979, FOLLOWING THE US
GOVERNMENT DECISION TO WITHDRAW FROM AIR TALKS IN WASHINGTON
WITH AUSTRALIAN NEGOTIATORS.
BUT THE PROPOSAL TO START AIR SERVICES TO AUSTRALIA IS PECULIAR
AS PACIFIC TRAFFIC IS THEN APPROACHING A TRADITIONAL TROUGH AND
IT IS DIFFICULT FOR ANY AIRLINE TO ENTER A NEW MARKET WITHOUT ILL-
TIMING COMPOUNDING THE PROBLEM.
THE US DECISION TO ABOUT THE TALKS WITH AUSTRALIA ALSO POINTS TO
FURTHER DELAYS IN ESTABLISHING A LOWER FARE LEVEL ON THE PACIFIC
AS SO MUCH OF CONTINENTAL'S PLANNING WOULD BE BASED ON AN UNKNOWN
QUANTITY.

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THE AUSTRALIA-US TALKS, WHEN THEY RESUME, ARE UNLIKELY TO REACH
AN EARLY COMPROMISE.
AUSTRALIAN TRANSPORT MINISTER MR. PETER NIXON, JUDGING BY RECENT
STATEMENTS TO PARLIAMENT, SEEMS UNYIELDING IN THE DESIRE TO LIMIT
CAPACITY ON THE PACIFIC, A DETERMINING FACTOR IN ANY NEW FARE
LEVEL.
THE CARTER ADMINISTRATION, ON THE OTHER HAND, LAST WEEK FORMAL-

IZED ITS GUIDELINES FOR FUTURE CIVIL AIR SERVICES AGREEMENTS WHICH INCLUDE CRITERIA OF MORE PRICE COMPETITION ON FARES AND FEWER RESTRICTIONS ON THE CAPACITY AND FREQUENCY OF SCHEDULED FLIGHTS. THIS PUTS THE CARTER ADMINISTRATION AND THE FRASER GOVERNMENT AT LOGGERHEADS.

COMPOUNDING LIKELY PROTRACTED DELAYS IN AGREEMENT TO CONTINENTAL TERMS OF ENTRY TO AUSTRALIA IS THAT MR. NOXON DOGMATICALLY OPPOSES THE PAN AM - AND THE US GOVERNMENT FAVORED - REPEATEDLY REFILED BUDGET FARE.

CONTINENTAL WOULD NEED AT LEAST SIX MONTHS LEAD TIME FROM THE RELEASE OF ANY NEW FARES PACKAGE TO DETERMINE THE APPROACH AND MARKETING OF ITS NEW PACIFIC SERVICES. CONTINENTAL, IN A STATEMENT FROM LOS ANGELES, SAID THAT IT HAD NO REASON NOT TO EXPECT FULL COOPERATION FROM THE US GOVERNMENT IN GETTING THE SERVICE STARTED ON MAY 1, 1979. "WE INTEND TO SPEND A LOT OF MONEY TO GET OUR SERVICE STARTED BY MAY 1," IT SAID, "AND WE ARE HOPEFUL THAT ALL THE GOVERNMENTS CONCERNED WILL SEE FIT TO GIVE US THE OPPORTUNITY TO PROVIDE NEW SERVICE AND LOWER AIR FARES TO THE PACIFIC."

THE SINCERITY OF CONTINENTAL IN FLYING TO AUSTRALIA IS COMING UNDER INCREASING DOUBT BECAUSE OF A NUMBER OF CHANGES IN BOTH THE US REGULATORY ENVIRONMENT IN THE LAST 12 MONTHS, THE BITTER AUSTRALIAN OPPOSITION TO A SECOND US FLAG CARRIER AND INTERNAL MATTERS WITHIN CONTINENTAL PERTAINING TO ITS MERGER PLANS WITH WESTERN AIRLINES. CONTINENTAL, IF IT DOES EVENTUALLY START SERVICES TO AUSTRALIA, WILL BE TRYING TO GAIN A TOEHOLD IN AN EXTREMELY COMPETITIVE MARKET TIGHTLY TIED UP BETWEEN PAN AM, UNCLASSIFIED

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QNATAS AND AIR NEW ZEALAND.

THE SUBSTANTIAL COST OF LAUNCHING CONTINENTAL INTO THE PACIFIC WILL BE AN INVESTMENT WHICH FOR SOME TIME MUST INCUR ENORMOUS LOSSES.

BUT CONTINENTAL ARGUES THAT IT WILL BRING A NEW MARKET OF US TOURISTS TO AUSTRALIA, DRAWN IN PARTICULAR FROM ITS STRONG MID-WEST NETWORK CENTERED ON HOUSTON AND INCLUDING CHICAGO, KANSAS CITY, DALLAS, TUCSON AND SEATTLE.

CONTINENTAL SAYS THAT IT HAS MADE CLEAR TO US GOVERNMENT OFFICIALS THAT IT IS PREPARED TO INCUR SUBSTANTIAL START-UP COSTS BUT IT EXPECTS FULL ASSISTANCE FROM THE US GOVERNMENT IN COMPLETING THE NECESSARY PROCEDURES TO ENABLE IT TO START ITS SERVICE. UNQUOTE.

ALSTON

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